

**REPORT OF THE AUDIT OF THE
FORMER ROCKCASTLE COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER ROCKCASTLE COUNTY CLERK**

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the former Rockcastle County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$8,453 from the prior year, resulting in excess fees of \$40,600 as of December 31, 2010. Revenues increased by \$61,672 from the prior year and expenditures increased by \$53,219.

Debt Obligations:

The County Clerk's office is committed to a lease agreement with a total outstanding balance of \$6,271 as of December 31, 2010.

Report Comment:

2010-01 The Former County Clerk's Office Lacked Adequate Segregation Of Duties

Deposits:

The former County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Norma Houk, Former Rockcastle County Clerk
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Rockcastle County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2011 on our consideration of the former Rockcastle County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Norma Houk, Former Rockcastle County Clerk
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Former County Clerk's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 14, 2011

ROCKCASTLE COUNTY
 NORMA HOUK, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Grants	\$	61,845
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State Fees For Services		6,653
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Fiscal Court		7,036
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	498,241
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Usage Tax		448,408
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Tangible Personal Property Tax		853,695
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Other-

Marriage Licenses		5,892
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Occupational Licenses		220
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Deed Transfer Tax		18,721
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Delinquent Tax	216,832	2,042,009
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		15,335
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Real Estate Mortgages		17,258
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Chattel Mortgages and Financing Statements		25,993
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Powers of Attorney		1,884
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All Other Recordings		23,053
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Charges for Other Services-

Candidate Filing Fees		2,060
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Copywork	2,898	88,481
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Other:

Refunds		1,138
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Miscellaneous		1,456
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Auto Deposits		588
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Postage	274	3,456
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Interest Earned		337
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Total Revenues		2,209,817
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The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 NORMA HOUK, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 347,092

Usage Tax 434,244

Tangible Personal Property Tax 354,184

Licenses, Taxes, and Fees-

Delinquent Tax 29,397

Legal Process Tax 13,014

Affordable Housing Trust 14,784 \$ 1,192,715

Payments to Fiscal Court:

Tangible Personal Property Tax 54,506

Delinquent Tax 16,718

Deed Transfer Tax 17,709

Occupational Licenses 186 89,119

Payments to Other Districts:

Tangible Personal Property Tax 400,423

Delinquent Tax 100,327 500,750

Payments to Sheriff 17,797

Payments to County Attorney 29,221

Operating Expenditures:

Personnel Services-

Deputies' Salaries 179,991

Employee Benefits-

Employer's Share Social Security 18,888

Employer's Share Retirement 15,000

Contracted Services-

Contract Labor 3,110

Equipment Rental 12,920

Printing and Binding 2,540

Materials and Supplies-

Office Supplies 9,519

Other Charges-

Conventions and Travel 4,976

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 NORMA HOUK, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Other Charges- (Continued)

Refunds	\$	5,126	
Miscellaneous		15	
Postage		4,056	
Cold Checks Collection		<u>50</u>	\$ 256,191

Unpaid Liabilities

Federal Tax Liens Due Incoming Clerk	<u>96</u>
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Total Expenditures	<u>\$ 2,085,889</u>
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Net Revenues	123,928
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Less: Statutory Maximum	<u>76,104</u>
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Excess Fees	47,824
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Less: Expense Allowance	3,600
Training Incentive Benefit	<u>3,624</u>
	<u>7,224</u>

Excess Fees Due Fiscal Court at Completion of Audit *	<u><u>\$ 40,600</u></u>
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* The County Clerk turned over excess fees to the fiscal court on June 14, 2011.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months of service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Rockcastle County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former Rockcastle County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Lease

The Office of the County Clerk was committed to a lease agreement with Xerox for a copying machine. The agreement requires a monthly payment of \$214 for 60 months to be completed on September 1, 2013. The total balance of the agreement was \$6,271 as of December 31, 2010.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Norma Houk, Former Rockcastle County Clerk
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Rockcastle County Clerk for the year ended December 31, 2010, and have issued our report thereon dated June 14, 2011. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rockcastle County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Rockcastle County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 14, 2011

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
NORMA HOUK, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Former County Clerk's Office Lacked Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, recording-keeping, disbursement processing, report preparation, and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role with these incompatible functions.

The former County Clerk prepared and deposited the receipts, prepared and signed the checks, and reviewed the receipts and disbursements ledgers, as well as, the quarterly reports prepared by the bookkeeper. One deputy in the former County Clerk's office prepared the daily checkout sheet and reconciled the License and Transfer, Usage, and Tangible Personal Property Tax reports.

To adequately protect employees in the normal course of performing their assigned functions and to protect the former County Clerk against inaccurate financial reporting, the former Clerk should have separated the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties could not be segregated due to a limited number of staff or budget, strong oversight should have been provided over the employee responsible. If the former County Clerk had implemented oversight instead of segregating duties this should have been documented consistently on the appropriate source document.

County Clerk's Response: "No response"

